

**International Academy of Flint, PSA  
Flint, Michigan**

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**Financial Report  
with Supplemental Information  
June 30, 2008**

# **International Academy of Flint, PSA**

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## **Contents**

<b>Report Letter</b>	1-2
<b>Management's Discussion and Analysis</b>	3-9
<b>Basic Financial Statements</b>	
Academy-wide Financial Statements:	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet - Governmental Funds	12-13
Reconciliation of the Balance Sheet to the Statement of Net Assets	14
Statement of Revenue, Expenditures, and Changes in Fund Balance - Governmental Funds	15-16
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
Notes to Financial Statements	18-28
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule - General Fund	29
<b>Other Supplemental Information</b>	
Non-major Governmental Funds:	
Combining Balance Sheet	30
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	31
General Fund:	
Schedule of Revenues - Budget and Actual	32
Schedule of Expenditures - Budget and Actual	33
Statement of Revenue, Expenditures, and Changes in Fund Balances - Budget and Actual - Special Revenue Food Service Fund	34
Schedule of Bond Covenants and Compliance	35
Schedule of Bonded Indebtedness - Public School Academy Revenue Bonds, Series 2007 \$17,175,000	36



## Independent Auditors' Report

Board of Education  
International Academy of Flint, PSA  
Flint, Michigan

We have audited the accompanying financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of International Academy of Flint, PSA as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major funds, and the aggregate remaining fund information of International Academy of Flint, PSA as of June 30, 2008, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule on page 29, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise International Academy of Flint, PSA basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 13, 2008 on our consideration of the Academy's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Plante & Moran, PLLC*

October 13, 2008

## **Management's Discussion and Analysis**

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# International Academy of Flint

## Management's Discussion and Analysis

This section of International Academy of Flint's (IAF) annual financial report presents our discussion and analysis of the Academy's financial performance during the fiscal year that ended on June 30, 2008.

### FINANCIAL HIGHLIGHTS

- The Academy issued \$17,175,000 in Public School Academy Revenue bonds to acquire the main educational facility and begin constructing a large expansion.
- The Academy's total net assets decreased approximately nine percent (9%) over the course of the year.
- Overall revenues were \$8.66 million, \$259,465 less than expenses.
- Revenues increased eleven percent (11.0) % to \$8.66 million while expenses increased thirteen and one half percent (13.5%) to \$ 8.92 million.
- Enrollment increased almost ten percent (9.7%) to 915 students.
- The Academy has established a Debt Service Fund and a Capital Improvement fund to set aside funds to pay the debt and to provide resources for future maintenance and replacement of the facilities.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplemental information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are *Academy-wide financial statements* that provide both *short-term* and *long-term* information about the Academy's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy's operations *in more detail* than the Academy-wide statements.
- The *governmental funds* statements tell how basic services like regular education and school services (including the lunch program) were financed in the *short-term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information and other supplemental information* that further explains and supports the financial statements. The required supplementary introduction includes with a comparison of the Academy's budget for the year.

# International Academy of Flint

## Management's Discussion and Analysis (Continued)

The following chart summarizes the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain:

### Major Features of Academy-wide and Fund Financial Statements

Scope	Academy-wide Statements	Fund Financial Statements
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balance
Accounting Basis and Measurement Focus	Accrual Accounting and Economic Resources Focus	Modified Accrual Accounting and Current Financial Resources Focus
Type of Asset/Liability Information	All Assets and Liabilities, both Financial and Capital, Short-term and Long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included
Type of Inflow/Outflow Information	All Revenues and Expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable

The remainder of this overview section of Management's Discussion and Analysis highlights the structure and contents of each of the statements.

### ACADEMY-WIDE STATEMENTS

The Academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes *all* of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two Academy-wide statements report the Academy's net assets and how they have changed. Net assets – the difference between the Academy's assets and liabilities – are one way to measure the Academy's financial health or *position*.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the condition of the schools buildings.

# International Academy of Flint

## Management's Discussion and Analysis (Continued)

In the Academy-wide financial statements, the Academy's activities:

- *Governmental activities* - All of the Academy's basic services are included here including regular and special education, administration, and building operations, as well as community activities. State formula aid and federal funding finance most of these activities.

### FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Academy's *funds*, focusing on its most significant or "major" funds - not the Academy as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law.
- The Academy establishes other funds to control and manage money for particular purposes (like repaying long-term debt) or to show that it is properly using certain revenues (like school lunch).

The Academy may have two kinds of funds:

- *Governmental funds* - All of the International Academy of Flint's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the Academy-wide statements, we provide additional information along with the governmental funds statements which explain the relationship (or differences) between them.
- *Fiduciary funds* - At present the Academy does not have any fiduciary funds. However, if the Academy were the trustee, or fiduciary, for assets that belonged to others (such as scholarship funds or student activities funds) these assets would be reported in the fiduciary fund. The Academy would be responsible for ensuring that any assets reported in these funds were used exclusively for their intended purposes and by those to whom the assets belong. Such assets are excluded from the Academy-wide financial statements because they cannot be used to finance Academy operations.

### FINANCIAL ANALYSIS OF THE ACADEMY-WIDE RESULTS

**Net Assets** - The Academy's total net assets decreased by more than nine percent (9%) from the prior year, from \$573,964 to \$314,499.

The Academy's financial position is the product of many factors. Interest expense on the bonds and other non-capital expenses related to the property acquisition during the year was a significant contributor to the decrease in net assets.



# International Academy of Flint

## Management's Discussion and Analysis (Continued)

The following charts represent the Academy's net assets and changes in net assets:

### Net Assets

	<u>As of June 30, 2008</u>	<u>As of June 30, 2007</u>
Cash and equivalents	\$ 213,724	\$ 378,360
Due from other governments	1,446,186	1,306,317
Restricted assets - Cash and cash equivalents	6,283,828	7,508
Prepays	8,565	-
Other Assets	354,792	-
Capital assets - Net	<u>11,934,671</u>	<u>124,321</u>
Total assets	20,241,766	1,816,506
Accounts / accrued interest payable	2,752,267	1,242,542
Long-term liabilities	<u>17,175,000</u>	<u>-</u>
Total liabilities	19,927,267	1,242,542
Net assets:		
Invested in capital assets, net of related debt	175,731	124,321
Restricted for debt service	1,629,625	-
Unrestricted	<u>(1,490,857)</u>	<u>449,643</u>
	<u>\$ 314,499</u>	<u>\$ 573,964</u>

# International Academy of Flint

## Changes in Net Assets

	<u>Fiscal Year 2008</u>	<u>Fiscal Year 2007</u>
General Revenues		
State of Michigan aid, unrestricted	\$6,734,083	\$6,085,883
Interest earnings	218,807	10,991
Other	<u>71,636</u>	<u>76,504</u>
Total general revenues	<u>7,024,526</u>	<u>6,173,378</u>
Program Revenue		
Operating grants - Federal and state	<u>1,639,559</u>	<u>1,627,690</u>
Total Revenues	<u>8,664,085</u>	<u>7,801,068</u>
Expenses		
Instruction	3,763,396	3,351,518
Support services	3,456,691	3,796,427
Community services	414,753	467,952
Food services	309,318	243,477
Interest expense	862,743	-
Depreciation - Unallocated	<u>116,649</u>	<u>-</u>
Total expenses	<u>8,923,550</u>	<u>7,859,374</u>
Change in net assets	<u>\$ (259,465)</u>	<u>\$ (58,306)</u>

# **International Academy of Flint**

## **Management's Discussion and Analysis (Continued)**

### **Academy Governmental Activities**

The continued good health of the Academy's finances can be credited to a stable enrollment, ambitious grant seeking, and effective budget administration.

- The Academy's per pupil foundation was \$7,475 compared to \$7,385 in FY 2007.
- 21<sup>ST</sup> Century Community Learning Center Funding provided federal funds for the ongoing operation of the Academy before and after school.
- Title I funding and 31a funding helped finance the additional instruction and support services for the large population of at-risk students.

### **FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS**

The financial performance of the Academy as a whole is reflected primarily in its governmental funds. As the Academy completed the year, its governmental funds reported combined fund balances of \$5,436,055; \$4,986,412 higher than last year's ending fund balance of \$449,643 mainly as a result of unspent bond proceeds in the Capital Project Fund of \$2,688,590 and resources set aside in the Debt Service Fund in the amount of \$1,865,644.

The General Fund of the Academy had more revenues and other financing sources than expenditures and other financing uses in 2008, thereby, causing the increase in total fund balance. The School Service Fund (that records the school lunch program) recorded a fund balance of \$-0-.

### **General Fund Budgetary Highlights**

Over the course of the year, the Academy revised the annual operating budget once. This budget amendment was based on:

- Changes made in the Education Provider Agreement related to the operation of the facility now owned by the Academy rather than Flint Property Management, LLC.

While the Academy's final budget for the general fund anticipated that revenues would exceed expenditures by \$39,840, the actual results for the year show an increase in fund balance of \$135,122.

- Actual revenues were \$38,414 higher than expected.

The actual expenditures were \$56,850 below budget.

# **International Academy of Flint**

## **Management's Discussion and Analysis (Continued)**

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

The Board of Directors of the Academy has adopted a \$5,000 threshold for the capitalization of assets. Land and a Building were purchased during the year and there was construction in progress at June 30, 2008 as the building expansion was well in process. A total of \$11,926,999 was capitalized during the year for the Academy-wide financial reporting purposes.

The Academy leases another facility. The lease is classified as an operating lease.

#### **Long-term Debt**

At June 30, 2008 the Academy had \$17,175,000 in long-term debt as a result of the Public School Academy Revenue bond issue. A total of \$1,865,644 was set aside in a Debt Service Fund for the payment of future principal and interest payments.

### **FACTORS BEARING ON THE ACADEMY'S FUTURE**

At the time these financial statements were prepared and audited, the Academy was aware of the following circumstance that could significantly affect its financial health in the future:

- The student enrollment is expected to continue to grow. The Academy will need to ensure that it budgets appropriately in order to continue to provide services for an increasing student body that is not fully funded.

### **CONTACTING THE ACADEMY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Board Liaison Officer, International Academy of Flint, 2820 S. Saginaw Street, Flint, MI 48503.

## **Basic Financial Statements**

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# International Academy of Flint, PSA

## Statement of Net Assets June 30, 2008

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 213,724
Due from other governments	1,446,186
Prepaid items	8,565
Restricted assets - Cash and cash equivalents (Note 5)	6,283,828
Other assets	354,792
Capital assets - Net (Note 4)	11,934,671
Total assets	20,241,766
<b>Liabilities</b>	
Accounts payable	2,516,248
Accrued interest payable	236,019
Long-term liabilities:	
Due within one year	95,000
Due in more than one year	17,080,000
Total liabilities	19,927,267
<b>Net Assets</b>	
Investment in capital assets , net of related debt	175,731
Restricted for debt service	1,629,625
Unrestricted	(1,490,857)
	\$ 314,499

# International Academy of Flint, PSA

## Statement of Activities For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues Operating Grants	Governmental Activities
			Net (Expense) Revenue and Changes in Net Assets
Governmental Activities:			
Instruction	\$ 3,763,396	\$ 1,036,387	\$ (2,727,009)
Support services	3,456,691	-	(3,456,691)
Food services	309,318	309,318	-
Community services	414,753	293,854	(120,899)
Interest expense	862,743	-	(862,743)
Depreciation - Unallocated	116,649	-	(116,649)
Total Governmental activities	<b>\$ 8,923,550</b>	<b>\$ 1,639,559</b>	(7,283,991)
General Revenues:			
State of Michigan aid, unrestricted			6,734,083
Interest earnings			218,807
Other			71,636
Total general revenues			7,024,526
<b>Change in Net Assets</b>			(259,465)
<b>Net Assets - Beginning of year</b>			573,964
<b>Net Assets - End of year</b>			<b>\$ 314,499</b>

# International Academy of Flint, PSA

	Governmental Fund Types		
	General	Debt Service	Capital Projects
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ -	\$ -	\$ -
Due from other governments	1,431,050	-	-
Due from other funds	-	-	-
Prepaid items	8,565	-	-
Restricted assets	-	1,865,644	\$ 4,418,184
Total assets	<b>\$ 1,439,615</b>	<b>\$ 1,865,644</b>	<b>\$ 4,418,184</b>
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Accounts payable	\$ 771,235	\$ -	1,729,594
Due to other funds	83,615	-	-
Total liabilities	854,850	-	1,729,594
Fund balances:			
Reserved:			
Prepaid items	8,565	-	-
Debt service	-	1,865,644	-
Capital projects	-	-	2,688,590
Fund balance - Unreserved, undesignated	576,200	-	-
Total fund balance	584,765	1,865,644	2,688,590
Total liabilities and fund balances	<b>\$ 1,439,615</b>	<b>\$ 1,865,644</b>	<b>\$ 4,418,184</b>



**Governmental Funds  
Balance Sheet  
June 30, 2008**

Nonmajor Funds	Total Governmental Funds
\$ 213,724	\$ 213,724
15,136	1,446,186
83,615	83,615
-	8,565
-	6,283,828
<b>\$ 312,475</b>	<b>\$ 8,035,918</b>

\$ 15,419	\$ 2,516,248
-	83,615
15,419	2,599,863

-	8,565
-	1,865,644
297,056	2,985,646
-	576,200
297,056	5,436,055
<b>\$ 312,475</b>	<b>\$ 8,035,918</b>

# International Academy of Flint

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## Reconciliation of the Balance Sheet to the Statement of Net Assets Year Ended June 30, 2008

Fund balances reported on governmental funds	\$ 5,436,055
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds:	11,934,671
Long-term liabilities are not due and payable in the current period and are not reported in the governmental funds:	
Bonds payable including discount	(16,820,208)
Accrued interest payable is not included as a liability in governmental funds	<u>(236,019)</u>
Net assets - Governmental activities	<u><u>\$ 314,499</u></u>

## International Academy of Flint, PSA

	Governmental Fund Types		
	General	Debt Service	Capital Projects
<b>Revenues</b>			
Local sources	\$ 79,769	\$ 42,615	\$ 168,059
State sources	7,156,633	-	-
Federal sources	907,691	-	-
Total revenues	8,144,093	42,615	168,059
<b>Expenditures</b>			
Current:			
Instruction	3,763,396	-	-
Support services	3,413,340	-	-
Food services	-	-	-
Community services	414,753	-	-
Debt Service:			
Interest	-	472,038	-
Other	-	154,686	-
Capital Outlay	-	-	11,926,999
Total expenditures	7,591,489	626,724	11,926,999
Excess (deficiency) of revenue over expenditures	552,604	(584,109)	(11,758,940)
Other financing sources (uses)			
Discount on debt issued	-		(354,792)
Long-term debt issued	-		17,175,000
Transfers out	(736,407)		(2,372,678)
Transfers in	318,925	2,449,753	-
Total other financing sources (uses)	(417,482)	2,449,753	14,447,530
Net change in fund balances	135,122	1,865,644	2,688,590
<b>Fund Balances - Beginning of year</b>	449,643	-	-
<b>Fund Balances - End of year</b>	<b>\$ 584,765</b>	<b>\$ 1,865,644</b>	<b>\$ 2,688,590</b>

**Governmental Funds**  
**Statement of Revenue, Expenditures and**  
**Changes in Fund Balances**  
**For the year ended June 30, 2008**

Nonmajor Funds	Total Governmental Funds
\$ -	\$ 290,443
5,290	7,161,923
304,028	1,211,719
309,318	8,664,085
-	3,763,396
878	3,414,218
309,318	309,318
-	414,753
-	472,038
-	154,686
42,473	11,969,472
352,669	20,497,881
(43,351)	(11,833,796)
-	(354,792)
-	17,175,000
340,407	(3,109,085)
340,407	3,109,085
340,407	16,820,208
297,056	4,986,412
-	449,643
<b>\$ 297,056</b>	<b>\$ 5,436,055</b>

# International Academy of Flint

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## **Reconciliation of Statement of Revenue, Expenditures, and Changes In Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008**

Net change in fund balances – Total governmental funds \$ 4,986,412

Governmental funds report capital outlays as expenditures. However, in the statements of activities, these costs are allocated over their estimated useful lives as depreciation:

Depreciation expense	(116,649)
Capitalized capital outlay	11,926,999

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of activities (17,175,000)

Underwriter's discount/premium reported as expenditures in the governmental funds and amortized in the statement of activities 354,792

Interest expense and cost of issuance of debt reported as expenditures in the governmental funds during the construction period is capitalized as a cost construction (236,019)

Change in net assets – Statement of activities \$ (259,465)

## **Notes to Financial Statements**

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# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies

The accounting policies of the International Academy of Flint, PSA (the Academy) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

#### Reporting Entity

##### Organization:

International Academy of Flint, PSA, ("the Academy") is a body corporate and governmental entity organized under the Michigan School Code of 1976 as amended. It is organized and operates as a public school academy eligible to receive state school aid. The Academy received its initial charter approval from Central Michigan University (CMU) on August 17, 1999.

##### Contract with the Management Company:

The Academy Board entered into a contract on August 10, 1999 with Flint Education Management, LLC (a company owned by SABIS Educational Systems, Inc.). Under the agreement, Flint Education Management, LLC (FEM) manages and operates the Academy. When the Academy's Fund Balance is greater than \$500,000, FEM receives 97 percent rather than 95 percent of the state school aid received by the Academy after a 3% administration fee is deducted by CMU. FEM is responsible for reporting to the Academy's Board, the expenditures made in accordance with the budget adopted by the Board. FEM retains any management fees in excess of expenditures and the Academy is not liable to fund any deficits incurred by FEM. Expenditures made by FEM are reported as "purchased services" in the Academy's statement of revenues, expenditures and changes in fund balance. The expenditures are categorized according to function as defined by State Educational guidelines.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Academy's reporting entity, and which organizations are legally separate, component units of the Academy. Based on the application of the criteria, the Academy does not contain any component units.

#### Academy-wide and Fund Financial Statements

The Academy-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, which normally are supported by state aid and other intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Academy has no business-type activities.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Academy-wide and Fund Financial Statements (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State aid, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation**

##### **Academy-wide statements:**

The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

##### **Fund based statements:**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The Academy reports the following major governmental funds:

General Fund - The General Fund is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Debt Service Fund - The Debt Service Fund accounts for the loan proceeds and related payments of principal and interest related to the construction of a new facility.



### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)**

Fund based statements (continued):

Capital Project Fund- The Capital Project Fund accounts for the bond proceeds from the 2007 Revenue Bond issue and the related capital outlay expenditures and transfers to the Debt Service Fund.

Additionally, the government reports the following fund types:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes.

The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of the food service activity from regular revenue and expenditure accounts. The Academy maintains full control of this fund.

The Capital Improvement Fund is a Special Revenue Fund established as a requirement of the 2007 Bond Issue Agreement whereby a "Facility use Charge" received from the Flint Education Management, LLC for use of the property will be placed for future maintenance and replacement equipment and the facility.

#### **Assets, Liabilities, and Net Assets or Equity**

Deposits and investments:

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of twelve-months or less when acquired. Investments, when held, are stated at fair value.

Receivables:

All receivables are shown net of an allowance for uncollectible amounts. Management has determined that all receivables are collectible as of June 30, 2008. Therefore, no allowance for uncollectible amounts is recorded.

The State of Michigan utilized a foundation allowance approach, which provides for specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state's School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

### **Note I - Summary of Significant Accounting Policies (Continued)**

#### **Assets, Liabilities, and Net Assets or Equity (Continued)**

##### Receivables (continued):

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

##### Prepaid items:

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both Academy-wide and fund financial statements.

**Restricted assets:** The unspent bond proceeds and related interest of the Capital Projects Fund require amounts to be set aside for construction. The cash in the Debt Service fund is sent aside to pay the annual debt service requirement. These amounts have been classified as restricted assets.

##### Capital assets:

Capital assets, such as land, buildings, equipment, and vehicles, generally are reported in the applicable governmental column in Academy-wide financial statements, when applicable. Capital assets are defined by the Academy as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extended asset life are not capitalized.

##### Compensated absences:

The liability for compensated absences is reported in the Academy-wide statements. The Academy has only one employee for which there are no compensated absences due at June 30, 2008.

##### Long-term obligations:

In the Academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets, when present.

##### Fund equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations, if applicable, of fund balance represent tentative management plans that are subject to change.

##### Comparative date:

Prior year comparative data is not included in the Academy's basic financial statements.

# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Assets, Liabilities, and Net Assets or Equity (Continued)

##### Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Note 2 - Stewardship, Compliance, and Accountability

#### Budgetary information:

Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state law for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e. the level at which expenditures may not legally exceed appropriations) is the functional level. State law requires the Academy to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits the Academy to amend its budget during the year. During the year, the budget was amended in a legally permissible manner. There was one amendment during the year to reflect updated awards from the state and other governmental entities during the fiscal school year, as well as the purchase of land.

#### Excess of expenditures over appropriations in budgeted funds:

The Academy had expenditures in excess of budget as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Instruction:			
Basic programs	\$3,013,462	\$3,092,332	\$ (78,870)
Added needs: Comp Ed.	245,035	323,540	(78,505)
Special Ed.	347,155	347,524	(369)
Support services:			
Other instructional services	314,239	347,633	(33,394)
School administration	330,219	648,508	(318,289)
Business and facilities	549,943	694,333	(144,390)

The variance in the budget was due to the Academy receiving more revenue than anticipated.

Expenditures were made in accordance with the additional resources.

# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 3 - Deposits and Investments

Michigan Compiled Laws section 129.91 (Public Act 20 of 1943, as amended), authorizes the Academy to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Academy is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Academy has designated Citizens Bank for the deposit of its funds. The Academy's deposits and investment policies are in accordance with statutory authority.

At year-end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental <u>Activities</u>
Cash and cash equivalents (deposits and money market accounts)	<u>\$6,497,552</u>

The Academy's cash and cash equivalents are subject to custodial credit risk, which is examined in more detail below:

Custodial credit risk of bank deposits:

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a deposit policy for custodial credit risk. At year end, the Academy had \$6,219,017 of bank deposits (checking and money market accounts) that were uninsured and uncollateralized. The Academy believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Academy evaluates each financial institution it deposits funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories. No investments were held by the Academy at June 30, 2008.

# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

#### Governmental Capital Assets

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Capital Assets not Being Depreciated:</u>				
Construction in progress	\$ -	\$ 4,566,113	\$ -	\$ 4,566,113
Land	124,321	100,000	-	224,321
Subtotal	124,321	4,666,113	-	4,790,434
<u>Capital Assets Being Depreciated:</u>				
Buildings and improvements	-	5,832,438	-	5,832,438
Furniture and equipment	-	1,428,448	-	1,428,448
Subtotal	-	7,260,886	-	7,260,886
<u>Accumulated depreciation:</u>				
Buildings and improvements	-	116,649	-	116,649
Furniture and equipment	-	-	-	-
Net capital assets being depreciated	-	7,144,237	-	7,144,237
Net capital assets	\$ 124,321	\$ 11,810,350	\$ -	\$ 11,934,671

Depreciation expense was not charged to activities as the Academy considers its assets to impact multiple activities and allocation is not practical.

### Note 5 - Long-term Debt

The Academy issues bonds to provide funds for the acquisition and construction of facilities. A summary of bond transactions for the year ended June 30, 2008, and the composition of the June 30, 2008, long-term debt balance follows:

	Final Payment Due	Interest Rate or Range	Balance at June 30, 2007	Issuances (Retirements) During Year	Balance at June 30, 2008	Due Within One Year
Governmental activities:						
Public School Academy						
Bonds		5.0-5.75%	\$ -	\$17,175,000	\$17,175,000	\$ 95,000
Issuance Discount			-	(354,792)	(354,792)	(11,826)
Revenue Bonds 10/1/2037			\$ -	\$16,820,208	\$16,820,208	\$ 83,174

# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above obligations are as follows:

Year End <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 95,000	\$ 946,713
2010	265,000	944,600
2011	275,000	931,350
2012	290,000	917,600
2013	305,000	903,100
2014-2018	1,750,000	4,272,750
2019-2023	2,270,000	3,771,700
2024-2028	2,940,000	3,085,064
2029-2033	3,870,000	2,162,001
2034-2037	5,115,000	915,972
Total	<u>\$17,175,000</u>	<u>\$18,850,850</u>

Future Revenue Pledged for Debt Payment:

The Academy has pledged no more than 20% of the state school aid received in each fiscal year to repay the above revenue bonds. Proceeds from the bonds provided financing for the acquisition of an existing building and the construction of an expansion of the acquired building. The remaining principal and interest to be paid on the bonds is \$36,025,854. During the year state school aid received was \$6,734,083.

### Note 6 - Defined Benefit Pension Plan and Postemployment Benefits

Plan Description:

The Academy participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The system provides retirement, survivor, and disability benefits to plan members and their beneficiaries. The system also provides post-employment health care benefits to retirees and beneficiaries who elect to receive those benefits. The Michigan Public School Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the pension and post employment health care plans. That report is available on the web at <http://www.michigan.gov/orsschools>, or may be obtained by writing to the system at 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan 48909.

### **Note 6 - Defined Benefit Pension Plan and Postemployment Benefits (Continued)**

#### Pension Benefits:

Employer contributions to the pension system result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits. The employer contribution rate was 11.19 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 10.17 percent for the period from October 1, 2007 through June 30, 2008. Basic plan member make no contributions, but Member Investment Plan members contribute at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's required and actual contributions to the plan for the years ended June 30, 2008, 2007 and, 2006 were \$ 4,504, \$ 4,810, and \$ 4,005, respectively.

#### Postemployment Benefits:

Under the MPSERS Act, all retirees participating in the MPSERS pension plan have the option of continuing health, dental and vision coverage through MPSERS. Retirees electing this coverage contribute an amount equivalent to the monthly cost of Part B Medicare and 10 percent of the monthly premium amount for the health, dental, and vision coverage at the time of receiving the benefits. The MPSERS Board of Trustees annually sets the employer contribution rate to fund the benefits on a pay-as-you-go basis. Participating employers are required to contribute at that rate. The employer contribution rate was 6.55 percent of covered payroll for the period from July 1, 2007 through September 30, 2007 and 6.55 percent for the period from October 1, 2007 through June 30, 2008. The School District's required and actual contributions to the plan for retiree health care benefits for the years ended June 30, 2008, 2007, and 2006 were \$ 2,646, \$ 3,011, and \$ 2,901, respectively.

### **Note 7 - Contingencies**

The Academy participates in various federally assisted programs. These programs are subject to compliance audits in accordance with the Single Audit Act. A single audit was performed for the year ended June 30, 2008 since the Academy expended more than \$500,000 in federal funds. The amount, if any, of expenditures which may be disallowed by the granting agency cannot be determined at this time, although, the Academy expects such amounts, if any, to be immaterial.

### **Note 8 - Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions, and employer injuries (workers' compensation), as well as medical benefits provided to employees. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage since inception.

# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 9 - Operating Leases

Prior to November 1, 2007, Flint Education Management, LLC paid lease payments on behalf of International Academy of Flint (the lease holder) for two facilities and copier equipment at monthly rates ranging from \$1,983 to \$81,821. One facility was owned by Flint Property Management, LLC, a subsidiary of SABIS Educational Systems. Total payments made during the year related to this lease were \$245,464. The other property was owned by Redeemer Lutheran Church. Payments related to this lease were \$162,270.

On October 31, 2007, the International Academy of Flint purchased the real property from Flint Property Management, LLC for the purpose of expanding the facilities. Pursuant to a new "Education Provider Agreement", Flint Education Management, LLC allows the Academy to capture a "Facility Use Charge" on a monthly basis which is used by the Academy Board of Flint to help pay any bond debt service and certain capital improvements, replacement of boilers, HVAC and other mechanical items, emergency costs associated with the building, and replacement of the structure in the future. The Facility Use Charge is based on \$15 per square foot for the space occupied by the Flint Education Management, LLC in the operation of the Academy on any building owned by the Academy Board. During the year ended June 30, 2008, the total amounts related to this fee amounted to \$736,391 and represent an offset to the amount of management fees charged by Flint Education

Management, LLC. The copier equipment lease ends July 30, 2012. The financial obligation for the copier is paid by Flint Education Management, LLC, pursuant to the educational service provider agreement. The leases are classified as operating leases. Lease expense related to equipment for the year ended June 30, 2008 totaled \$ 40,917.

The following is a schedule of future minimum rental payments required under the noncancelable operating leases:

2009	\$209,573
2010	35,796
2011	35,796
2012	35,796
2013	2,981
	<u>\$319,942</u>



# International Academy of Flint

## Notes to Financial Statements June 30, 2008

### Note 10 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund providing resources</u>	<u>Fund receiving resources</u>	<u>Amount</u>
General Fund	Debt Service	\$ 176,000
General Fund	Capital Improvements	560,407
Capital Project Fund	General Fund	318,925
Capital Project Fund	Debt Service	2,053,753
Capital Improvement Special Revenue Fund	Debt Service	220,000

The General Fund transferred the Facility Use Charge received totaling \$736,407 during the year ended June 30, 2008 from Flint Education Management, LLC (See Note 9) to the Debt Service Fund and the Capital Improvements Fund at amounts of \$176,000 and \$560,407, respectively.

### Note 11 - Construction Commitments

The Academy is committed to a construction contract for the expansion of its main facility. The contract amount is \$7,400,000. The total amount paid/accrued as of June 30, 2008 was \$4,904,564 leaving a contract balance of \$2,495,436.

## **Required Supplemental Information**

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# International Academy of Flint, PSA

## Required Supplemental Information Budgetary Comparison Schedule - General Fund For the Year Ended June 30, 2008

	General Fund			
	Budgets		Actual	Variance with Final Budget
	Original	Final		
<b>Revenues</b>				
Local sources	\$ 1,064,262	\$ 82,407	\$ 79,769	\$ (2,638)
State sources	7,228,747	7,136,155	7,156,633	20,478
Federal sources	695,253	887,117	907,691	20,574
Total revenues	8,988,262	8,105,679	8,144,093	38,414
<b>Expenditures</b>				
Current:				
Instruction:				
Basic programs	3,135,303	3,013,462	3,092,332	(78,870)
Added needs:				
Compensatory education	331,804	245,035	323,540	(78,505)
Special education	352,322	347,155	347,524	(369)
Total added needs	684,126	592,190	671,064	(78,874)
Total instruction	3,819,429	3,605,652	3,763,396	(157,744)
Support services:				
Pupil - Guidance services	471,406	525,140	436,882	88,258
Other instructional services	152,695	314,239	347,633	(33,394)
General administration - Board	142,100	197,100	188,291	8,809
Executive administration	555,923	663,311	521,310	142,001
School administration	992,345	330,219	648,508	(318,289)
Business and facilities	80,525	549,943	694,333	(144,390)
Operation and maintenance	1,729,704	1,043,117	576,383	466,734
Total support services	4,124,698	3,623,069	3,413,340	209,729
Community services - Purchased svcs.	168,854	419,618	414,753	4,865
Total expenditures	8,112,981	7,648,339	7,591,489	56,850
Excess (deficiency) of revenues over expenditures	875,281	457,340	552,604	95,264
Other financing sources (uses) -				
Transfers out	-	(736,425)	(736,407)	18
Transfers in	-	318,925	318,925	-
Total other financing sources (uses)	-	(417,500)	(417,482)	18
<b>Budgetary Fund Balance - Beginning of year</b>	449,643	449,643	449,643	-
<b>Budgetary Fund Balance - End of year</b>	<b>\$ 1,324,924</b>	<b>\$ 489,483</b>	<b>\$ 584,765</b>	<b>\$ 95,282</b>

Note - The budget is on the same basis as generally accepted accounting principles.

## **Other Supplemental Information**

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# International Academy of Flint, PSA

## Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2008

	Special Revenue Food Service Fund	Capital Improvement Fund	Total Nonmajor Funds
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 89	\$ 213,635	\$ 213,724
Due from other governments	15,136	-	15,136
Due from other funds	194	83,421	83,615
Total assets	<u>\$ 15,419</u>	<u>\$ 297,056</u>	<u>\$ 312,475</u>
<b>Liabilities and Fund Equity</b>			
Liabilities:			
Accounts payable	\$ 15,419	\$ -	\$ 15,419
Due to other funds	-	-	-
Total liabilities	<u>15,419</u>	<u>-</u>	<u>15,419</u>
Fund balances:			
Reserved:			
Capital projects	-	297,056	297,056
Fund balance - Unreserved, undesignated	-	-	-
Total fund balance	<u>-</u>	<u>297,056</u>	<u>297,056</u>
Total liabilities and fund balances	<u>\$ 15,419</u>	<u>\$ 297,056</u>	<u>\$ 312,475</u>

# International Academy of Flint, PSA

## Other Supplemental Information Combining Statement of Revenue, Expenditures Statement of Revenue, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds For the year ended June 30, 2008

	Special Revenue Food Service Fund	Capital Improvement Fund	Total Nonmajor Funds
<b>Revenues</b>			
State sources	\$ 5,290	\$ -	\$ 5,290
Federal sources	304,028	-	304,028
Total revenues	309,318	-	309,318
<b>Expenditures</b>			
Current:			
Support services	-	878	878
Food services	309,318	-	309,318
Capital Outlay	-	42,473	42,473
Total expenditures	309,318	43,351	352,669
Excess of revenue over (under) expenditures	-	(43,351)	(43,351)
Other financing sources (uses)			
Transfers	-	340,407	340,407
Total other financing sources (uses)	-	340,407	340,407
Net change in fund balances	-	297,056	297,056
<b>Fund Balances - Beginning of year</b>	-	-	-
<b>Fund Balances - End of year</b>	<b>\$ -</b>	<b>\$ 297,056</b>	<b>\$ 297,056</b>

# International Academy of Flint, PSA

## Other Supplemental Information General Fund Schedule of Revenues - Budget and Actual For the Year Ended June 30, 2008 with Comparative Actual Totals for the Year Ended June 30, 2007

	General Fund			2007 Actual
	2008 Budget	2008 Actual	2008 Variance Favorable (Unfavorable)	
<b>Revenues</b>				
Local sources:				
Act 18, miscellaneous local sources	\$ 54,407	\$ 71,636	\$ 17,229	\$ 76,504
Interest	28,000	8,133	(19,867)	10,991
Total local sources	82,407	79,769	(2,638)	87,495
State sources:				
State aid	6,760,785	6,734,083	(26,702)	6,085,883
Restricted - State pass through	375,370	422,550	47,180	371,732
Total state sources	7,136,155	7,156,633	20,478	6,457,615
Federal sources:				
Restricted - Federal pass through	106,507	110,739	4,232	110,528
Restricted - State pass through	780,610	796,952	16,342	896,063
Restricted - Federal direct	-	-	-	6,084
Total federal sources	887,117	907,691	20,574	1,012,675
Total revenues	<b>\$ 8,105,679</b>	<b>\$ 8,144,093</b>	<b>\$ 38,414</b>	<b>\$ 7,557,785</b>

# International Academy of Flint, PSA

## Other Supplemental Information General Fund Schedule of Expenditures - Budget and Actual For the Year Ended June 30, 2008 With Comparative Actual Totals for the Year Ended June 30, 2007

	General Fund			2007 Actual
	2008 Budget	2008 Actual	2008 Variance Favorable (Unfavorable)	
<b>Expenditures</b>				
Instruction - Purchased services:				
Basic programs	\$ 3,013,462	\$ 3,092,332	\$ (78,870)	\$ 2,735,978
Added needs:				
Compensatory education	245,035	323,540	(78,505)	260,472
Special education	347,155	347,524	(369)	355,068
Total added needs	592,190	671,064	(78,874)	615,540
Total instruction	3,605,652	3,763,396	(157,744)	3,351,518
Support services:				
Instructional support - Purchased services:				
Pupil - Guidance services	525,140	436,882	88,258	427,334
Other instructional services	314,239	347,633	(33,394)	283,580
Total instructional support services	839,379	784,515	54,864	710,914
General administration - Board of Education:				
Board executive officer	58,000	60,059	(2,059)	55,697
Legal services	90,000	107,383	(17,383)	64,227
Audit services	20,000	13,890	6,110	10,525
Workshops and conferences	10,000	696	9,304	545
Other	19,100	6,263	12,837	38,298
Total general administration	197,100	188,291	8,809	169,292
Executive administration	663,311	521,310	142,001	490,503
School administration - Purchased services	330,219	648,508	(318,289)	534,442
Business and facilities - Purchased services	283,342	694,333	(410,991)	1,436,493
Operation and maintenance - Purchased services	1,309,718	576,383	733,335	579,104
Total support services	3,623,069	3,413,340	209,729	3,920,748
Community services - Purchased services	419,618	414,753	4,865	467,952
Total expenditures	<b>\$ 7,648,339</b>	<b>\$ 7,591,489</b>	<b>\$ 56,850</b>	<b>\$ 7,740,218</b>

The budget information presented is in greater detail than the amended budget adopted.



# International Academy of Flint, PSA

## Other Supplemental Information Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual Non-Major Governmental Fund Special Revenue Food Service Fund For the Year Ended June 30, 2008

Special Revenue Fund			
Food Service			
	Budget	Actual	Variance
<b>Revenues</b>			
State sources	\$ 75,275	\$ 5,290	\$ (69,985)
Federal sources	269,333	304,028	34,695
Total revenues	344,608	309,318	(35,290)
<b>Expenditures</b>			
School services activities -			
Purchased services	344,608	309,318	35,290
Total expenditures	344,608	309,318	35,290
Excess (deficiency) of revenues over expenditures	-	-	-
<b>Other Financing Sources</b>			
Transfers in	-	-	-
<b>Fund Balance - Beginning of year</b>	-	-	-
<b>Fund Balance - End of year</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>	<b>\$ - 0 -</b>

# International Academy of Flint

## Schedule of Bond Covenants and Compliance June 30, 2008

The Academy must:

Maintain an unrestricted fund balance/ net asset balance in its general fund which equals not less than the amount calculated as a percentage of Operating Expenses for the prior School year as follows:

- a) Such percentage shall be 7.5% for any School year, if in the School Year immediately preceding such School year, the total of the Combined Maximum Annual Requirements plus any similar lease-purchase or loan payment obligations of the Academy, excluded Short-Term debt, were equal to or less than 10% of Pledged Revenues;
- b) Such percentage shall be 10.0% for any School year, if in the School Year immediately preceding such School year, the total of the Combined Maximum Annual Requirements plus any similar lease-purchase or loan payment obligations of the Academy, excluded Short-Term debt, were equal to or less than 15% of Pledged Revenues;
- c) Such percentage shall be 12.5% for any School year, if the School Year immediately preceding such School year, the total of the Combined Maximum Annual Requirements plus any similar lease-purchase or loan payment obligations of the Academy, excluded Short-Term debt, were greater than 15% of Pledged Revenues;

A. Maximum Annual Requirements:

Combined Maximum Annual Requirements - Prior year	\$ 472,038
Plus: any similar lease-purchase or loan payment obligations	<u>-</u>
Total	<u>\$ 472,038</u>

B. State School Aid- year ended June 30, 2008 (Pupil Foundation) \$6,734,083

Calculated percentage (A/B) 7.00%

Operating expenses - Fiscal year 2007	\$7,576,439
Required unrestricted fund balance/ net assets	7.5%
Required unrestricted fund balance/net assets available for debt service	\$ 568,233

General Fund unrestricted fund balance at June 30, 2008	\$ 576,200
Debt Service Fund- fund balance at June 30, 2008	<u>1,865,644</u>
Total Fund balance available for Debt Service	<u>\$2,441,844</u>

Is the covenant met? YES

# International Academy of Flint

## Schedule of Bond Indebtedness Public School Academy Revenue Bonds, Series 2007 \$17,175,000

<u>Date</u>	<u>Principal</u>	<u>Coupon</u>	<u>Interest</u>	Total Principal and Interest
10/01/2008	\$ 95,000	5.000%	\$ 946,713	\$ 1,041,713
10/01/2009	265,000	5.000	944,600	1,209,600
10/01/2010	275,000	5.000	931,350	1,206,350
10/01/2011	290,000	5.000	917,600	1,207,600
10/01/2012	305,000	5.000	903,100	1,208,100
10/01/2013	320,000	5.000	887,850	1,207,850
10/01/2014	330,000	5.000	871,850	1,201,850
10/01/2015	345,000	5.000	855,350	1,200,350
10/01/2016	370,000	5.000	838,100	1,208,100
10/01/2017	385,000	5.000	819,600	1,204,600
10/01/2018	400,000	5.375	800,350	1,200,350
10/01/2019	430,000	5.375	778,850	1,208,850
10/01/2020	455,000	5.375	755,738	1,210,738
10/01/2021	480,000	5.375	731,281	1,211,281
10/01/2022	505,000	5.375	705,481	1,210,481
10/01/2023	530,000	5.500	678,338	1,208,338
10/01/2024	555,000	5.500	649,187	1,204,187
10/01/2025	585,000	5.500	618,663	1,203,663
10/01/2026	620,000	5.500	586,488	1,206,488
10/01/2027	650,000	5.500	552,387	1,202,387
10/01/2028	695,000	5.750	516,638	1,211,638
10/01/2029	730,000	5.750	476,675	1,206,675
10/01/2030	770,000	5.750	434,700	1,204,700
10/01/2031	815,000	5.750	390,425	1,205,425
10/01/2032	860,000	5.750	343,562	1,203,562
10/01/2033	905,000	5.750	294,112	1,199,113
10/01/2034	965,000	5.750	242,075	1,207,075
10/01/2035	1,025,000	5.750	186,587	1,211,587
10/01/2036	1,080,000	5.750	127,650	1,207,650
10/01/2037	1,140,000	5.750	65,550	1,205,550
Total	<b>\$17,175,000</b>		<b>\$18,850,850</b>	<b>\$36,025,850</b>

# **International Academy of Flint, PSA**

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**Federal Awards  
Supplemental Information  
June 30, 2008**

# International Academy of Flint, PSA

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## Contents

Independent Auditor's Report	I
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	2-3
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	4-5
Schedule of Expenditures of Federal Awards	6-9
Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards	10
Notes to Schedule of Expenditures of Federal Awards	11
Schedule of Findings and Questioned Costs	12-14



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## Independent Auditor's Report

To the Board of Directors  
International Academy of Flint, PSA

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of International Academy of Flint, PSA as of and for the year ended June 30, 2008, which collectively comprise the International Academy of Flint, PSA's basic financial statements, and have issued our report thereon dated October 13, 2008. Those basic financial statements are the responsibility of the management of the International Academy of Flint, PSA. Our responsibility was to express opinions on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the International Academy of Flint, PSA's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in this schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

October 13, 2008

Report on Internal Control Over Financial Reporting and on Compliance and  
Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Board of Directors  
International Academy of Flint, PSA

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of International Academy of Flint, PSA as of and for the year ended June 30, 2008, which collectively comprise the International Academy of Flint, PSA's basic financial statements, and have issued our report thereon dated October 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the International Academy of Flint, PSA's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the International Academy of Flint, PSA's internal control over financial reporting.. Accordingly, we do not express an opinion on the effectiveness of the International Academy of Flint, PSA's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the control deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 08-01 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the International Academy of Flint, PSA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The International Academy of Flint, PSA's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Directors and state and the federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 13, 2008



Report on Compliance with Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors  
International Academy of Flint, PSA

## Compliance

We have audited the compliance of the International Academy of Flint, PSA with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The major federal programs of the International Academy of Flint, PSA are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the International Academy of Flint, PSA's management. Our responsibility is to express an opinion on the International Academy of Flint, PSA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the International Academy of Flint, PSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the International Academy of Flint, PSA's compliance with those requirements.

In our opinion, the International Academy of Flint, PSA complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 08-02.

## Internal Control Over Compliance

The management of the International Academy of Flint, PSA is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our

Board of Directors  
International Academy of Flint, PSA

audit, we considered the International Academy of Flint, PSA's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 08-02 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency described above to be a material weakness.

The International Academy of Flint, PSA's response to the significant deficiencies and findings relating to compliance and other matters identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

This report is intended solely for the information and use of management, the Board of Directors and state and the federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

October 13, 2008

# International Academy of Flint, PSA

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount
Clusters:		
Child Nutrition Cluster:		
U.S. Department of Agriculture - Passed through the		
Michigan Department of Education:		
National School Breakfast Program	10.553	
2006-2007		\$ 40,870
2007-2008		53,559
National School Lunch Program:	10.555	
2006-2007		194,799
2007-2008		<u>235,435</u>
Total Child Nutrition Cluster		524,663
Special Education Cluster:		
U.S. Department of Education:		
Passed through the Genesee County ISD - IDEA:	84.027	
08450-0708		108,658
07450-0607		108,054
070490-TS		<u>700</u>
Total IDEA		217,412
Preschool Incentive:	84.173	
080460-0708		1,030
Safe and Drug-free:	84.186	
072860-0607		1,774
082860-0708		<u>1,051</u>
Total Safe and Drug-free		2,825
Total passed through the Genesee County ISD		<u>221,267</u>
Total Special Education Cluster		221,267

# International Academy of Flint, PSA

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2008

Accrued Revenue at July 1, 2007	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2008
\$ 2,631	\$ 2,631	\$ -	\$ -
-	50,729	53,559	2,830
11,699	11,699	-	-
-	223,128	235,435	12,307
14,330	288,187	288,994	15,137
-	21,181	108,658	87,477
30,072	30,072	-	-
700	700	-	-
30,772	51,953	108,658	87,477
-	1,030	1,030	-
1,774	1,774	-	-
-	-	1,051	1,051
1,774	1,774	1,051	1,051
32,546	54,757	110,739	88,528
32,546	54,757	110,739	88,528

# International Academy of Flint, PSA

Program Title/Project Number Subrecipient Name	CFDA Number	Approved Awards Amount
Passed through the Michigan Department of Education:		
21st Century Community Learning Center:	84.287	
21st CCLC (07/08)-middle		\$ 125,000
21st CCLC (07/08)-lower		<u>168,854</u>
Total Bilingual Education Cluster		293,854
Passed through the Michigan Department of Education:		
Title I:	84.010	
Title I A (07/08) Imp Basic Pro		395,044
Title I A (06/07) Imp Basic Pro		<u>331,804</u>
Total Title I		726,848
Title II:		
Title II A (07/08) Improve Tchr Q	84.367	84,826
Title II A (06/07) Improve Tchr Q	84.367	82,336
Title II D (07/08) Ed Tech	84.318	3,713
Title II D (06/07) Ed Tech	84.318	<u>3,406</u>
Total Title II		174,281
Title V:	84.298	
Title V (07/08) Innovative		2,931
Title V (06/07) Innovative		<u>3,052</u>
Total Vocational Education		5,983
U.S. Department of Agriculture - Passed through the Michigan Department of Education:		
Food Distribution:	10.550	
Entitlement commodities - 2006-2007		13,649
Entitlement commodities - 2007-2008		<u>18,760</u>
Total Food Distribution		<u>32,409</u>
Total federal awards		<u>\$ 1,979,305</u>

# International Academy of Flint, PSA

## Schedule of Expenditures of Federal Awards (Continued) Year Ended June 30, 2008

Accrued Revenue at July 1, 2007	Federal Funds/ Payments In-kind Received	Expenditures	Accrued Revenue at June 30, 2008
\$ -	\$ 125,000	\$ 125,000	\$ -
-	168,854	168,854	-
-	293,854	293,854	-
-	387,661	395,044	7,383
47,988	61,181	13,193	-
47,988	448,842	408,237	7,383
-	64,100	84,826	20,726
15,584	18,762	3,178	-
-	3,713	3,713	-
998	1,224	226	-
16,582	87,799	91,943	20,726
-	2,882	2,931	49
-	-	-	-
-	2,882	2,931	49
-	-	-	-
-	15,034	15,034	-
-	15,034	15,034	-
<u>\$ 111,446</u>	<u>\$ 1,191,355</u>	<u>\$ 1,211,732</u>	<u>\$ 131,823</u>

# **International Academy of Flint, PSA**

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## **Reconciliation of Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2008**

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 1,211,719
Miscellaneous unidentified variance	<u>13</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 1,211,732</u></u>

# **International Academy of Flint, PSA**

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## **Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2008**

### **Note 1 - Significant Accounting Policies**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the International Academy of Flint, PSA and is presented on the same basis of accounting as the International Academy of Flint, PSA's financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the International Academy of Flint, PSA's financial statements.

### **Note 2 - Noncash Assistance**

The value of the noncash assistance received was determined in accordance with the provisions of OMB Circular A-133. Noncash assistance received for USDA food distribution is reported in the schedule of expenditures of federal awards on the fair market value of the commodities received and disbursed.

### **Note 3 - Grant Section Auditor's Report**

Management has utilized Form R-7120 and the Cash Management System (CMS) Grant Auditor Report in preparing the schedule of expenditures of federal awards. Unreconciled differences, if any, have been disclosed to the auditor.



# International Academy of Flint, PSA

## Schedule of Findings and Questioned Costs Year Ended June 30, 2008

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major program(s):

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major program(s): Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major program(s):

CFDA Number(s)	Name of Federal Program or Cluster
84.287	21st Century Community Learning Center
84.010	Title I - Part A Regular

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low risk auditee? ☒ Yes ☐ No

# International Academy of Flint, PSA

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

### Section II - Financial Statement Audit Findings

Reference Number	Findings
08-01	<p><b>Review of Bank Statements:</b> Currently, the control procedures are such that the unopened bank statements are directly received by the individual responsible for preparing bank reconciliations, preparing check disbursements and access to general journal functions.</p> <p><b>Finding Type</b> – Significant deficiency</p> <p><b>Criteria</b> - To have adequate segregation of duties, a person other than the individual responsible for preparing check disbursements and bank reconciliations should be receiving the unopened bank statements and reviewing activity before they are given to the bank reconciliation preparer.</p> <p><b>Condition</b> – A lack of segregation of duties is indicated by the fact that currently, the control procedures are such that the unopened bank statements are directly received by the individual responsible for preparing bank reconciliations, preparing check disbursements and has access to general journal functions</p> <p><b>Context</b> – Unauthorized disbursements could occur and remain undetected.</p> <p><b>Cause and Effect</b>– Lack of segregation of duties creates opportunity for unauthorized disbursements that would remain undetected.</p> <p><b>Recommendation</b> - We suggest that a person other than the individual responsible for preparing bank reconciliations, preparing check disbursements and has access to general journal functions review the bank statements and check images prior to forwarding the information to the Board Liaison. This would strengthen internal controls over the bank account.</p> <p><b>Views of responsible officials and planned corrective actions</b> – The Board agrees and will change procedures such that the bank statements will be received by the front office staff and will make electronically scanned copies. The scanned copies will then be sent to the Board Treasurer for review. The original copies will be sent to the individual responsible for preparing bank reconciliations.</p>

# International Academy of Flint, PSA

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2008

### Section III - Federal Program Audit Findings

Reference Number	Findings
08-02	<p><b>Program Name</b> – 84.278 21<sup>st</sup> Century Community Learning Center 84.010 Title IA Improving Basic Programs</p> <p><b>Pass-through Entity</b> –Michigan Department of Education</p> <p><b>Finding Type</b> –Noncompliance and significant deficiency</p> <p><b>Criteria</b> – The OMB Circular A-87 requires that when employees are expected to work solely on a single federal award or cost objective, charges for their salaries will be supported by periodic certifications that the employees worked solely on that program for the semi-annual period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or a supervisor with first-hand knowledge of work performed by the employee.</p> <p><b>Condition</b> – Time certifications were only prepared once during the year.</p> <p><b>Context</b> – The Academy did not have the required documentation of semi-annual time certifications to be in compliance with OMB Circular A-87.</p> <p><b>Cause and Effect</b> – The Academy does not have a system in place to track the compliance with time certification for staff who work on 21<sup>st</sup> CCLC and Title IA grant programs.</p> <p><b>Recommendation</b> – It is recommended that time certifications are prepared semi-annually as required by the OMB Circular A-87</p> <p><b>Views of responsible officials and planned corrective actions</b> – The Academy concurs with the finding and will assure that time certifications will be performed on a semi-annual basis in the future.</p>

# **International Academy of Flint, PSA**

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**Report to the Academy Board**

**June 30, 2008**



**Plante & Moran, PLLC**

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To the Academy Board  
International Academy of Flint, PSA

We have recently completed our audit of the basic financial statements of International Academy of Flint, PSA (the "Academy") for the year ended June 30, 2008. In addition to our audit report, we are providing the following letter of increased audit communications, required audit communication, summary of unrecorded possible adjustments, recommendations, and informational comments which impact the Academy:

	<u>Page</u>
<b>Report on Internal Control</b>	1-2
<b>Results of the Audit</b>	4-7
<b>Other Information</b>	9-13

We are grateful for the opportunity to be of service to the International Academy of Flint, PSA. Should you have any questions regarding the comments in this report, please do not hesitate to call.

*Plante & Moran, PLLC*

October 13, 2008

## Report on Internal Control

October 13, 2008

To the Academy Board  
International Academy of Flint, PSA

Dear Board Members:

Beginning with last year's audit, national auditing standards call for auditors to communicate matters to the governing body that may be useful in its oversight of the Academy's financial management. Specifically, they require us to report internal control issues to the governing body that may be relatively minor, in order to allow it to evaluate their significance, and make any changes it may deem appropriate. In general, these are items that would have been discussed orally with management in the past. The purpose of these new standards are to allow the governing body an opportunity to discuss issues when they are relatively minor, rather than waiting until they become more serious problems. We hope this **Report on Internal Control** will be helpful to you, and we look forward to being able to discuss any questions you may have concerning these issues.

In planning and performing our audit of the financial statements of the International Academy of Flint, PSA as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and/or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be

To the Academy Board  
International Academy of Flint, PSA

prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

**Review of Bank Statements** - Currently, the procedures are such that the unopened bank statements are received by the Board Liaison directly from the bank. At that point she begins the bank reconciliation process. Since the Board Liaison is responsible for preparing check disbursements we suggest that the bank statements be sent by the bank directly to another person not involved in the preparation of check disbursements. We suggest that a person other than the Board Liaison review the bank statements and check images prior to forwarding the information to the Board Liaison. This would strengthen internal controls over the bank account.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the item described above is not a material weakness.

#### **Other Comments and Recommendations**

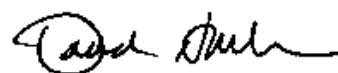
**Budget Adoption** - During the year the Capital Improvement Fund (a special revenue fund) was established. Since state law requires that an annual budget be adopted for the special revenue funds, we therefore suggest that an annual budget be adopted for the fund.

**Budget vs. Actual review** - Our understanding is that a Treasurer's Report is provided to the Board for review on a monthly basis. The report provides receipts and disbursement detail for the month, however, there is no presentation of the budget vs. actual by accounts on the level that the budget was adopted. The budget is monitored by the Board Liaison and a budget amendment is presented to the Board for approval as needed. We suggest that the Board receive a budget vs. actual financial report on a monthly basis so that they can monitor the budget. Our understanding is that a budget vs. actual worksheet is now in use for FY08-09.

We would like to thank the Board for allowing us to serve as your independent auditors and consultants. We would also be happy to further discuss the items in this letter and to help in addressing their resolution should you desire.

Very truly yours,

**Plante & Moran, PLLC**



Tadd A. Harburn, CPA

## Results of the Audit

October 13, 2008

To the Board of Trustees  
International Academy of Flint, PSA

We have audited the financial statements of International Academy of Flint, PSA for the year ended June 30, 2008, and have issued our report thereon dated October 13, 2008. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter dated May 13, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. In addition, to our responsibilities as described in the above letter, management has the following responsibilities:

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's responsibility. We may make suggestions as to the form or content of the financial statements or even draft them, in whole or in part, based on management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. The financial statements remain the representations of management.

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed on selected tests rather than an attempt to verify all transactions. Since evidence is



To the Academy Board  
International Academy of Flint, PSA

examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, “in our opinion.”

### **Auditor’s Responsibility for Testing and Reporting on Internal Controls and Compliance with Laws, Regulations, Grant Agreements and Contract Provisions**

In the process of a financial statement audit, we gain an understanding of internal control of the organization as well as the laws and regulations having a direct and material effect on the organization for the purpose of assisting in determining the nature, timing and extent of audit testing. Tests of controls and compliance with laws and regulations in a financial statement audit contribute to the evidence supporting our opinion on the financial statements. However, the limited purpose and scope of these tests are not sufficient to provide a basis for an opinion on the adequacy of internal control or on compliance with laws, regulations, grant agreements and contract provisions.

The limited purpose of these tests in a financial statement audit may not meet the needs of some users of auditor’s reports who require additional information on internal controls and on compliance with laws, regulations, grant agreements and contract provisions. To meet certain audit report users’ needs, laws, regulations, grants and contracts often prescribe testing and reporting on internal controls and compliance to supplement the coverage of these areas in a financial statement audit. In accordance with OMB Circular A-133 covering federal awards, supplemental testing of and reporting on internal controls and compliance was performed.

We are responsible for planning and performing the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the International Academy of Flint, PSA. Our consideration of internal control was solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters and our audit of the financial statements does not relieve you or management of your responsibilities.

Our audit of the International Academy of Flint, PSA’s financial statements has also been conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Under those Government Auditing Standards, we have made some assessments of International Academy of Flint, PSA’s compliance with certain provisions of laws, regulations, contracts and grant agreements. While those assessments are not sufficient to identify all noncompliance with applicable laws, regulations, and contract provisions, we are required to communicate all noncompliance conditions that come to our attention. We have

To the Academy Board  
International Academy of Flint, PSA

communicated those conditions in a separate letter dated October 13, 2008 regarding our consideration of the International Academy of Flint, PSA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements.

We also are obligated to communicate certain matters related to our audit to those responsible for the governance of International Academy of Flint, PSA, including certain instances of error or fraud and significant deficiencies in internal control that we identify during our audit. In certain situations, Government Auditing Standards requires disclosure of illegal acts to applicable government agencies. If such illegal acts were detected during our audit, we would be required to make disclosures regarding these acts to applicable government agencies. No such disclosures were required.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 5, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by International Academy of Flint, PSA are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008.

We noted no transactions entered into by the Academy during the year for which there is a lack of authoritative guidance.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the useful life of capital assets.

Useful lives of capital assets are based upon management's estimate of their life. We evaluated the key factors and assumptions used to develop the estimate of useful lives in determining that it is reasonable in relation to the financial statements taken as a whole.

To the Academy Board  
International Academy of Flint, PSA

The disclosures in the financial statements are neutral, consistent, and clear.

### ***Difficulties Encountered in Performing the Audit***

We encountered no difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We did not identify any uncorrected misstatements during the course of the audit.

### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management Representations***

We have requested certain representations from management that are included in the management representation letter dated October 13, 2008.

### ***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

In the normal course of our professional association with the organization we generally discuss a variety of matters, including the application of accounting principles and auditing standards, business conditions affecting the organization, and business plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the organization's auditors.

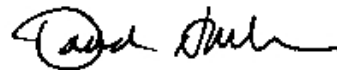
To the Academy Board  
International Academy of Flint, PSA

This information is intended solely for the use of the Academy Board and management of International Academy of Flint, PSA and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Academy Board for the opportunity to serve as auditors for the Academy. We would also like to express our appreciation for the courtesy and cooperation extended to us by the administration during the audit. If you would like to discuss any of these matters, or would like assistance in their implementation, please contact us.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, appearing to read "Tadd Harburn", written in a cursive style.

Tadd A. Harburn, CPA

## **Other Information**

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### STATE AID ISSUES

#### 2007/2008

2007 brought many financial challenges to the Academy. Chief among them was the State's inability to put a budget plan together, resulting in a short state shut down in October. These budget challenges at the State level meant that the Academy operated for three months without knowing the final funding level the state was to provide for the 2007/2008 fiscal year. Once the plan was agreed to, the State was able to fully fund the plan, meaning the Academy did not have to face the possibility of another proration. The result of the measures put in place, among many features, included the following:

#### **Foundation Allowance:**

No pro-ration and the Academy did receive the promised increase in the Academy's foundation allowance. As part of the legislation, the State modified the foundation allowance concept. This modification added a sliding scale equity payment to the foundation formula. The base foundation increase was \$48 per pupil. The lowest funded academies received an additional \$48 per pupil. The equity payment element was phased out at a foundation allowance of \$8,433.

#### **Categoricals:**

The above actions taken also allowed the State to fully fund the categoricals promised in the 2007 State Aid Act legislation.

#### 2008/2009

For 2008/2009, the Governor and Legislature continued to work through the State's budget issues. Once again, academies were asked to establish budgets without knowing the level of funding to be provided by the State. In July 2008, a compromise was reached.

#### **Foundation Allowance:**

The Budget agreement provides for a \$105 (1.4 percent increase) in the Academy's foundation allowance. As part of the agreement, the State continued with its sliding scale equity payment concept within the foundation formula. The base foundation increase is \$56 per pupil. The lowest funded academies and schools received an additional \$56 per pupil. The equity payment is received by academies and schools with a foundation allowance below \$8,489.

# **International Academy of Flint, PSA**

## **Informational (Continued)**

### **Kindergarten Full-Funding “Intent Language”:**

As part of the budget plan, the amendments to the State Aid Act include “intent language” to move toward a full day kindergarten requirement. Essentially the language provides that, beginning in fiscal year 2009/2010, half-day developmental kindergarten programs would be funded at 50 percent (current law fully funds those programs). In addition, kindergarten programs would be fully funded in fiscal year 2010/2011 if they operated for 60 percent of a day, and fully funded in FY 2011/2012 if they operated for 70 percent of a day.

### **FEDERAL PROGRAM EXPENDITURE DOCUMENTATION**

During 2006, the Michigan Department of Education issued a clarification as to the types of documentation necessary to support payroll charges to federal programs. While this discussion is not comprehensive, it is intended to highlight the key elements of the clarified requirements.

For an employee who works solely on a single federal program, required documentation includes:

- A “certification” that the employee worked solely on a particular federal program for the period covered by the certification
- The certification must be prepared at least semi-annually and signed by the employee or a supervisory official having firsthand knowledge of the work performed by the employee

For an employee who is partly funded by a federal program but works in a “single cost objective” (that is, they perform the same function the entire day but are not 100 percent federally funded), the certification requirements above apply.

For academies that have a “school wide” building as defined by the Title I regulations, employees charged to federal grants within that building can use the certification requirements to support the time charged to the federal grant.

If an employee works on more than one federal award or part of their time is spent in non-federal award areas (and the services are not considered a single cost objective), required documentation includes:

1. Personnel activity reports or equivalent documentation reflecting the actual activity of the employee
2. Documentation must include the total activity for which the employee is compensated
3. Report must be signed by the employee

# **International Academy of Flint, PSA**

## **Informational (Continued)**

4. If lesson plans are used they must be updated to show what was actually done that day and be signed by the teacher

While these are not new requirements, the documentation requirements can be very confusing. We recommend the Academy review their documentation procedures and compare the procedures to the State issued clarifications to ensure procedures are sufficient to comply with federal requirements.

### **NO CHILD LEFT BEHIND (NCLB)**

NCLB has now been in place for several years and it still creates significant challenges for academies to comply with its requirements. As auditors, we are not involved in evaluating the educational implications of NCLB. However, we, along with the educational community, continue to grow in our understanding of how NCLB impacts operations. Federal auditors continue to evaluate the State of Michigan's overall compliance with NCLB. As part of the evaluation, they visit and evaluate the operations of individual school academies. Based on these reviews and our experiences throughout Michigan, we have identified a few potential pitfalls with NCLB compliance. As part of the Academy's continued evaluation of how to best comply with NCLB, we offer the following areas for continued focus:

**Title I Set Asides** – NCLB requires that some funds be “set aside” before the building allocations are completed. The State of Michigan's forms are designed to aid the Academy in the allocation process and are available on the State's MEGS system.

**Highly Qualified Staff** – The “Highly Qualified” requirements have been fully phased in for both teachers and paraprofessionals. The Academy must track who must be highly qualified and ensure evidence of compliance with the requirement is documented in Academy files. The Michigan Department of Education has included forms and checklists on its website to aid in documenting compliance with the Highly Qualified requirements. In addition, the State can now compare academy submitted information with data reported on the REP (an academy-wide staffing report). When discrepancies are noted, the Michigan Department of Education will notify the academy so they can be resolved. Over time, as staff change their function and new staff are added, maintenance of this documentation will continue to be a challenge for the Academy

**Costs of Transportation, Supplemental Services, and Professional Development** – When a building is not meeting adequate yearly progress, certain rules become effective. Depending on the phase the building is in, an Academy may have to use funds for pupil transportation to another school and/or supplemental services to pupils. In addition, professional development may need to be provided. In such circumstances, an Academy must identify and capture the costs associated with these activities in order to charge Title I.



# **International Academy of Flint, PSA**

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## **Informational (Continued)**

Clearly NCLB compliance continues to challenge all school academies. In addition, as the laws that enacted NCLB are reviewed and potentially renewed by Congress, it is likely that new challenges are in store. As we become aware of additional financial implications of this complex law, we will do our best to keep you informed.

### **UNIFORM BUDGETING AND ACCOUNTING ACT**

The Michigan Department of Education (“MDE”) continues to monitor academy compliance with the Uniform Budgeting and Accounting Act. The Department reviews the annual audited financial statements and identifies any academy or public school academy whose total expenditures exceed their budget by more than 1 percent. In addition, the same test is applied to other financing sources (uses). MDE is also reviewing certain revenue shortfalls as being a violation. For a revenue shortfall to be a violation it has to represent a variance greater than 1 percent of the total budgeted revenue and the academy’s fund balance must have been depleted beyond what had been approved by the Board of Directors.

Violations result in a letter being sent to the academy. If an adequate response is not received back from the academy, MDE will refer the academy to the Attorney General’s office for possible further action. If your Academy receives a violation notice from MDE, you will have two weeks to provide MDE with information regarding the Academy’s procedures to detect and prevent violations of the act. MDE will then decide, based on your response, on the appropriateness of referring the violation to the Attorney General’s office for further consideration.

Obviously, as you go forward, it is strongly advised that the Board and management review the Academy’s policies and procedures in this area in order to prevent violations. The key factor in all this new enforcement effort is an emphasis on the Board’s responsibility to approve all expenditures via the budget process and avoid any deficit fund balance.

### **PUBLIC ACT 106 OF 2007**

In October 2007, the State of Michigan enacted the Public Employees Health Benefit Act. This Act was intended to promote greater opportunities for academies to control the escalating costs of health benefits provided to academy staff. The act provides for changes in three areas:

1. Mandates solicitation of competitive bids for health insurance at least once every three years, or when a plan is enacted or substantially modified
2. Mandates the release of individual academy claims data by existing providers
3. Allows for academies to form and participate in health insurance pools

# **International Academy of Flint, PSA**

## **Informational (Continued)**

The act is not intended to replace an academy's collective bargaining activities, but has created many more alternatives to the programs currently used in most academies. We encourage you to explore the cost-saving options now available. We would be happy to assist you in evaluating your best options to provide optimal health coverage for your staff at competitive prices.

### **Budgeting for 2008/2009**

As you are aware, academies were required to adopt their June 30, 2009 budget prior to July 1, 2008. At the time of initial adoption, there are significant variables that are unknown. In addition to the 2008/2009 student count, which is always unknown, there was not a State Aid Act officially in place to at least give the Academy a foundation allowance per pupil. Academies used estimates based on varying draft versions of the Act. This is compounded by the tremendous uncertainty surrounding the overall condition of the school aid fund as well as the State's general fund. Add to that the uncertainty of utility and fuel costs as well as health care costs and you begin to see that the initial budget is really tentative.

Therefore, it will be imperative to plan as many scenarios as possible for the 2008/2009 fiscal year and react quickly as each of these variables are resolved or finalized.

### **Recent I.R.S. Changes to Deferred Compensation Rules**

The IRS recently announced a change in position surrounding staff that choose to be paid over a 12-month period rather than over the shorter school year. Under the change, the employee will not be considered to have a "deferred compensation" arrangement if:

- The payment of any recurring compensation is not deferred beyond the last day of the 13th month following the beginning of the school year; and
- The amount deferred from one taxable year to the next is not more than the general dollar deferral limit in effect under Code Section 402(g) (currently, \$15,500 in 2008) for the calendar year in which the school year begins.
- Prior to this Notice, the IRS had taken the position that if an employee elected to be paid over a 12-month period rather than over the shorter school year, the employee had deferred compensation. As a result, both the school academy and the employee needed to comply with the requirements of Code Section 409A, which governed deferred compensation arrangements.
- The result of this new Notice will "eliminate the possibility of additional tax under 457(f) and 409 for most teachers and schools," according to the IRS. Taxpayers can rely on Notice 2008-62 immediately, "beginning with the first taxable year that includes July 1, 2008."